

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0135-03
Bill No.: SCS for HCS for HB 112 and 285
Subject: Property, Real and Personal, State Tax Commission, Taxation and Revenue -
Property
Type: Original
Date: April 22, 2011

Bill Summary: Would classify certain sawmills and planing mills as agricultural and horticultural property instead of commercial property for property taxation purposes, and would specify the assessment classification of land and buildings related to common ownership properties, hotels, and motels.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Blind Pension		(Unknown) to (\$20,143) to Unknown	(Unknown) to (\$20,143) to Unknown
	\$0		
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(Unknown) to (\$20,143) to Unknown	(Unknown) to (\$20,143) to Unknown

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	(Unknown) to (\$4,028,600) to Unknown	(Unknown) to (\$4,028,600) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed there would be no added cost to their organization as a result of this proposal.

This proposal would reclassify sawmills and planing mills as agricultural property instead of commercial property. This change would lower the assessed valuation on these properties from 32% to 12% of total value.

According the US Census Bureau, County Business Patterns, there were 201 sawmills in Missouri in 2008, for a total of 0.13% of all firms.

BAP has no data on the value of sawmill properties. However, BAP notes that sawmills are a very small percentage of firms, and therefore of commercial property in Missouri. If levies remain unchanged, this proposal could lower local government and Blind Pension Fund revenues.

In addition, BAP officials noted that this proposal would clarify that any land or associated residential structure which is part of a residential subdivision, condominium, time share development, or similar development is residential property, and any land or associated structure which is part of a hotel or motel is not residential property. These provisions could impact local or Blind Pension Fund revenues if a change in assessed valuation is required, but BAP has no data to estimate potential impacts.

ASSUMPTION (continued)

Officials from the **Department of Conservation** and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Elementary and Secondary Education** (DESE) stated that this proposal would include saw mills and planing mills as agricultural property. DESE officials assume they are currently assessed as industrial and commercial, and this being the case there would be a reduction in the amount of property taxes paid by the owners of these mills since agriculture is assessed at 12% and commercial and industrial at 33.3%. This could have a negative fiscal impact on schools and other taxing authorities but it would be impossible to calculate.

Officials from the **State Tax Commission** (TAX) assume this proposal would have no fiscal impact on their organization but could reduce local government revenues.

TAX officials stated that there could be a major loss of revenue for certain local political subdivision including schools. The language in this version would appear to provide that any sleeping room or units within a structure (condominiums, time-share development) which is not continuously available for rent or lease would be classified as residential property and would be assessed at 19% of its market value instead of commercial property which is assessed at 32% of its market value. The amount of the revenue loss is unknown but could be substantial for certain counties. Furthermore, it appears that this language might allow hotels and motels to qualify as residential property.

Officials from **Cass County** assumed that a previous version of this proposal (HB 112 LR 0135-01) would have a negative fiscal impact on their organization from \$100 to unknown.

Officials from **St. Louis County** assume that the loss from a previous version of this proposal (HCS for HB 112 and 285 LR 0135-02) would not be great but could not provide an estimate of the fiscal impact since they cannot define their sales tax revenue to this level of detail.

Officials from the **City of Kansas City** stated that there are very few operations of this nature in the city, and that the impact of this proposal on their organization would be a small unknown negative.

ASSUMPTION (continued)

Officials from the **City of Raytown** stated in response to a previous version of this proposal (HCS for HB 112 and 285 LR 0135-02) that there is no fiscal impact to their organization that they could easily identify as a result of this proposal.

Officials from the **City of Richmond** provided a response to a previous version of this proposal (HCS for HB 112 and 285 LR 0135-02) but did not include an estimate of the fiscal impact to their organization.

Officials from the **Parkway School District** assume that the impact of this proposal is unknown but assumed to be manageable.

Officials from the **Saint Louis Public School District** assumed that a previous version of this proposal (HB 112 LR 0135-01) would have no fiscal impact on their organizations.

In response to a similar proposal in the previous session (HCS/HB 1204, LR 3244-02, 2010) officials from the **Department of Conservation** provided information which indicated there are approximately 450 sawmills in Missouri with an aggregate value of \$327 million.

Oversight is not able to determine the current appraised or assessed valuation for these properties and will use the information provided by MDC. Oversight has calculated an estimated maximum fiscal impact for the implementation of this proposal as follows.

- A. Assessed valuation of sawmills at current 32% ratio -
 $(\$327,000,000 \times .32) = \$104,640,000$.
- B. Assessed valuation of sawmills at proposed 12% ratio -
 $(\$327,000,000 \times .12) = \$39,240,000$.
- C. Reduction of assessed valuation -
 $(\$104,640,000 - \$39,240,000) = \$65,400,000$.
- D. Reduction of local government tax revenue -
 $(\$65,400,000 / \$100 \times \$6.16 \text{ per } \$100 \text{ average tax rate}) = \$4,028,600$.

ASSUMPTION (continued)

Oversight notes that the maximum calculated impact would occur only if local governments are unable to increase their tax levy rate to recover the loss of assessed valuation associated with the reclassification of these properties from commercial to agricultural. If local governments are able to increase their tax levy rate to recover those losses, this proposal would likely shift the property tax burden from sawmill owners to other commercial property owners, and to agricultural and residential property owners.

Oversight has reviewed the available information as to current levies and maximum authorized levies, and noted that certain local governments would have the ability to increase their levy rates beyond their current level. Oversight does not have any information as to which local governments would have sawmills or planing mills, nor do we have the information that would be required to determine which local governments would be able to increase their levy rates to recover the loss of assessed valuation associated with the change in classification of the sawmills and planing mills. For the purposes of this fiscal note, Oversight will indicate a range of fiscal impact from \$0 to the maximum calculated impact of \$4,028,600 for the provisions affecting the assessed valuation of sawmill properties. Oversight assumes that revenue for the Blind Pension Fund would be reduced by about one-half of one percent of the reduction in local government revenues, or a range from \$0 to \$20,143.

Oversight notes that the provisions regarding land and structures which are a part of a residential subdivision, condominium, time-share development, or similar residential common ownership community would be classified as residential property for assessment purposes, and similar land and structures related to hotels and motels would not be classified as residential property. Oversight has no information regarding such properties and assumes that this provision could result in higher or lower assessed valuations for such properties depending on their current classification. Accordingly, Oversight will indicate a fiscal impact for local governments and the Blind Pension Fund from positive unknown to negative unknown.

Finally, **Oversight** assumes this proposal would become effective in August 2011 after the completion of 2011 assessments and would become effective for 2012 assessments, resulting in a loss of revenue starting with FY 2013.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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BLIND PENSION FUND

<u>Revenue impact</u> - classification of land and buildings for certain properties	\$0	<u>(Unknown) to Unknown</u>	<u>(Unknown) to Unknown</u>
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<u>Revenue reduction</u> - change in classification of sawmill properties	\$0	<u>\$0 to (\$20,143)</u>	<u>\$0 to (\$20,143)</u>
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ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u><u>(Unknown) to (\$20,143) to Unknown</u></u>	<u><u>(Unknown) to (\$20,143) to Unknown</u></u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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LOCAL GOVERNMENTS

<u>Revenue impact</u> - classification of land and buildings for certain properties	\$0	<u>(Unknown) to Unknown</u>	<u>(Unknown) to Unknown</u>
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<u>Revenue reduction</u> - change in classification of sawmill properties	\$0	<u>\$0 to (\$4,028,600)</u>	<u>\$0 to (\$4,028,600)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u><u>(Unknown) to (\$4,028,600) to Unknown</u></u>	<u><u>(Unknown) to (\$4,028,600) to Unknown</u></u>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which own or operate sawmills or planing mills, or to operators or hotels, motels, condominiums, time-share developments, and similar properties.

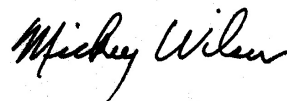
FISCAL DESCRIPTION

This proposal would classify certain sawmills and planing mills as agricultural and horticultural property instead of commercial property for property taxation purposes, and would specify the assessment classification of land and buildings related to common ownership properties, hotels, and motels.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Labor and Industrial Relations
Department of Revenue
State Tax Commission
Cass County
City of Kansas City
City of Raytown
City of Richmond
Parkway School District
Saint Louis Public School District



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Director
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